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RUEHBY/AMEMBASSY CANBERRA 0637
RUEHLO/AMEMBASSY LONDON 1460
RUEHMO/AMEMBASSY MOSCOW 0766
RUEHOT/AMEMBASSY OTTAWA 0598
RUEHFR/AMEMBASSY PARIS 1314
RUEHSG/AMEMBASSY SANTIAGO 0183
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C O N F I D E N T I A L PRETORIA 000585

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E.O. 12958: DECL: 03/18/2018
TAGS: EMIN ENRG EINV ETRD EPET PGOV ZI SF
SUBJECT: IMPALA PLATINUM ON DOING BUSINESS IN ZIMBABWE

REF: HARARE 215

Classified By: Economic Counselor Perry Ball for reasons 1.5 (b) and (d
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¶1. (C) SUMMARY: Impala Platinum (Implats) Executive Director Les Paton told Energy Officer and Specialist on March 18 that Implats remains confident that they can continue successfully mining platinum in the Great Dyke in Zimbabwe via Zimplats (86.9 percent held by Implats, headquartered in Johannesburg). He offered some insights on doing business in Zimbabwe. Although he asserts the indigenization law was not fully signed, Zimplats was seeking to meet the spirit of the law. The company imports and/or provides all its own services, such as power and fuel. End Summary.

INDIGENIZATION LAW

¶2. (C) Paton stated that Zimplats was operating under business as usual. He asserted that President Mugabe had "assented" to the controversial 51 percent local indigenization law, but Mugabe had not signed it (reftel). Paton maintained that the law was effectively an electioneering tool, as well as a threat he was "holding in his back pocket" to pressure mining companies not to cavort with the political opposition. Paton emphasized that the company was studiously apolitical. He noted that the law was a legal "mish-mash" and had not been debated in parliament, but he admitted that the company was seeking to broadly comply, but without an explicit recognition of its satisfaction of the law's requirements.

¶3. (C) Paton said the company had broadly complied with the spirit of the indigenization in the law, particularly via its May 2006 agreement with the Government of Zimbabwe to give back 36 percent of its resource base, in exchange for renewal of its license regime. Paton said Zimplats would gain effective localization/empowerment credit of 29.5 percent, assuming that the GOZ does not pay $51 million in cash owed

for part of the GOZ share. In addition, the GOZ recognizes a 7 percent share for Zimplats for sewage and other infrastructure services the company provides instead of the GOZ. Paton said Zimplats has been seeking, so far unsuccessfully, to put 15 percent into local hands, and would likely settle for a 10 percent employee share ownership plan.

¶4. (C) Paton noted that foreign mining companies are not likely to accept minority control. He commented that Russian and Chinese companies that had stepped into the ground ceded by Zimplats would not be willing to accept minority control.

POWER

¶5. (C) Paton noted that Zimplats has to import and provide the bulk of its services and supplies, including fuel and power. He said the company is securing its power from the Cahora Bassa hydroelectric station in Mozambique. Paton expected that Zimplats would convert its one-year renewable contract (at 4.5 U.S. cents per kwh) to a five-year contract. He commented that the Zimbabwe grid is not reliable. Paton noted that NamPower refurbished one coal-fired electricity generation unit at Hwange, in exchange for provision of
Qgeneration unit at Hwange, in exchange for provision of electricity to Namibia. He wondered why Eskom did not take advantage of involvement there, but observed that coal supply and mine equipment are not secure at Hwange.

¶6. (C) COMMENT: Paton opined that Implats faces surprisingly similar challenges operating in South Africa, with obvious differences in scale and risk: questions about power infrastructure and government take (royalties in play and a comment by the ANC Secretary-General about the goal of 51

percent SAG "control" of mines, later pulled back to some extent.) He was bullish on business in both countries given record platinum prices, but he said that costs and capital expansion were difficult to manage. Paton was cautiously optimistic about political change in Zimbabwe, noting more willingness to dissent and advocate change by the "guy on the ground" and in rural areas.
BOST